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Management from the NOVA – School of Business and Economics.

SMALL AND MEDIUM ENTERPRISE COMPETITIVENESS: INTERNATIONALIZATION
STRATEGY

Internationalization Process of *Prego Gourmet* to the Brazilian market

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Executive Summary

This work project has the objective to internationalize a Portuguese fast food chain, named Prego Gourmet, to the Brazilian market, more specifically, to enter in the Sao Paulo fast food industry in the end of 2013, through studies of the internal and external environment. Hence, this work project is a prospective analysis of what the company should do in order to internationalize, analysing the entry mode, collaborative arrangements, and implementation plan. Finally, a risk assessment, recommendations and main conclusions are done to support the internationalization process.

Concluding, the study enlightened the best entry mode to Brazil, having recommended entering São Paulo through a Joint Venture creating a master franchising and allocating a country manager to Brazil.

*Please take into consideration that in order to have a deeper understanding and appraisal of the work project as a whole, it is imperative **to check all the exhibits** as they are highly linked throughout all the study conducted.*

Keywords: *fast food, Brazil, internationalization, Prego Gourmet, franchising, São Paulo.*

Purpose of Work and Methodology

In order to execute an internationalization plan for Prego Gourmet, a brief comprehension of the domestic market was done having realized that the company has to firstly grow domestically to vision international expansion. Hence, this work project is a prospective analysis, since the firm is not yet organized as a franchising model. Complementary to this study, another work project will focus strictly in the internal processes that are mandatory to the firm organization. Therefore, Frederico Salema will make a deeper analysis of the company and its domestic market, setting up a

Franchising model in order to optimize internal best practices and grow nationally, making conditions for future internationalization. Both works are complementary representing two steps faced in an internationalization process. This will create value for the company as several studies about franchising state that a successful international expansion is more likely after a robust settlement in their domestic market.

Based on the analysis of Euromonitor, interviews with the company, email exchanges, specialist's websites and an online survey, a deeper knowledge of the internal and external environment of the company as well as the Brazilian fast food market was possible. Methodologically were used analytical tools such as Porter 5 Forces, TOWS/SWOT Analysis and Risk Assessment, to understand the firm and the competitive environment.

Firm Analysis

Prego Gourmet is a Portuguese fast-food restaurant founded in 2011 in Lisbon, firstly, and its surroundings, which delivers an exclusive and sophisticated version of a traditional Portuguese cuisine's product; a thin veal steak that can be eaten – or not – as a sandwich snack. Two friends – David Igrejas and João Cota Dias – seized this opportunity and started a business, having distinct backgrounds (*Exhibit 1*). David, always passionate about cooking, went to study culinary¹ abroad – despite his engineering degree – returning to Portugal to found Foral da Vila –a very well known restaurant in Cascais. David noticed that, with the rising economic crisis, the more requested dish was a steak with Parmesan, balsamic vinegar and arugula, called *Prego Gourmet*. After Igrejas recognized the product's potential, he tested new recipes for this dish, in another restaurant, *The Bay* – a new concept of beach restaurants serving the best quality meat and fish in Praia da Conceição, Cascais.

Herewith, David quickly team up with João, which accounted for the financial department and general manager, to found Prego Gourmet Company. With Pedro Almeida² as their investor, the first restaurant of Prego Gourmet would come to life in early summer of 2011, in Amoreiras Plaza.

1 Art Institute of Fort Lauderdale

2 <http://expresso.sapo.pt/pedro-de-almeida-percurso-do-magnata-portugues-dos-petroleos=f533178>

The mix of the two drivers for this restaurant to appear, were the decrease in disposal income that made people to consume more fast food³ and the willingness to eat healthier food⁴, creating a niche of people who want a quality fast and cheap meal. Therefore, Prego Gourmet offers menus with refined versions of veal, pork, chicken and salmon steak mixed with numerous ingredients such as rice, salad and French fries (*Exhibit 2*). Prego Gourmet states they have perfected and improved part of the Portuguese culture, from the products to the decoration offering a clean and healthy ambience, which is seen as an advantage in a time where Portugal is being flooded by international fast food chains (*Table 1 in exhibits*). After being strategically positioned inside Food Courts and Shopping Malls, Prego Gourmet is expanding with 5 stores⁵ planning to open another in CascaisShopping by the end of 2012. The business is structured to fit with the current financial crisis, where people are consuming less, but the affordable quality attains clients who once ate in traditional restaurants. Please check *exhibit 3* for detailed information such as its Mission, Vision and Strategic Objectives, the company's Industry Mapping and *exhibit 6* for a deeper understanding of the company's value chain.

Prego Gourmet's Competitive Advantage

After conducting a VRIO Framework analysis (*Exhibit 8*), an understanding of Prego Gourmet sources of competitive advantage can be done. Here, the company presents a hybrid competitive advantage, as it is more detailed below,

Table 1 – Hybrid Competitive Advantage for Prego Gourmet

Hybrid Competitive Advantage	
Differentiation Advantage	Cost Advantage
Sources: Well diversified Offerings Portfolio Permanent presence close to customers Innovation process of a traditional dish Quick decision making due to small and flat organization	Sources: Ability do operate at lower margins Ability to maintain lower prices Good quality-price ratio Very little waste in preparation process

3 <http://www.tormo.pt/noticias/5885/Consumo%20de%20fast%20food%20dispara%20com%20crise>

4 http://rr.sapo.pt/informacao_detalhe.aspx?fid=31&did=54899

5 2011 – Amoreiras Plaza, Campo Pequeno, Atrium Saldanha, Oeiras Parque, Centro Comercial Alegro,.

Prego Gourmet clearly has strengths considering the former points, as the company have their business in a rather new concept, with very low competitive rivalry, the *Fast Casual Dining* (**Exhibit 9**) while innovating and improving the quality of a Portuguese traditional snack, which brings along an emotional string attracting and attaining clients. Furthermore, the firm has been able to efficiently confect different types of meals (veal, pork, chicken and salmon), serving them rapidly, thus having an efficient production process. With a good management of its value-chain, the best ingredients are acquired and with the ability to work with more delicate ingredients, which are always sliced very thin as well for their French fries, fresh rice and salad, the company is able to daily deliver meals under 30 seconds during rush hour.

The company also has a wide range of products offerings making possible for its customers to pass through all the menus mixing a great variety of ingredients – despite diversification in food having impact in costs, Prego Gourmet is able to maintain lower prices – this way, attaining more clients, as they can eat at Prego Gourmet everyday without repeating a meal. Moreover, the firm offers the option to customize the menu, as a client can chose how cooked it wants its steak and which side dish (weighted in 0,8€ with two accompaniments) and beverage (weighted in 0,7€) to go with the menu.

The company gains some leverage by having strong borrowing capacity, only using Pedro de Almeida as their investor, being all self financed - thus gaining some financial discipline, as the firm's investor will also control the business, expecting investment's return. Combining all the aspects above, it can be said that Prego Gourmet has competitive advantage since the company is able to deliver daily high quality meals at very competitive prices (**Exhibit 10**).

Porter 5 Forces Analysis – Fast Food in São Paulo, Brazil

After the analysing the internal environment of Prego Gourmet, a study of the Brazilian fast food market is conducted through a Porter 5 Forces to have better insights about the market to further expand.

Barriers to Entry – Moderate

Starting a fast food business in Brazil, financially speaking, is very accessible as a large capital outlay is not required being within the means of many individuals in Brazil⁶. Furthermore, there are no switching costs, being rather easy for a manager to close his business to open a fast food restaurant, but brand recognition plays a major role in Brazil, which can be an obstacle when setting up a new fast food restaurant, as shopping malls give priority to the more known brands and there is a fierce brand recognition from existing brands which may reduce the effect of almost inexistent switching costs. Hence, the company has to build a strong brand given the level of high competition in the fast food market in Brazil, especially in São Paulo. Nevertheless, new entrants face some retaliation from existing ones, possibly engaging in price wars, when entering a saturated and fierce market⁷. Lastly, revenue growth rates have been decelerating, reducing the market attractiveness⁸. This being said, there is a moderate prospect of new entrants in the market.

Threats of Substitutes – Moderate

Fast food substitutes include home cooking, ingredients to cook at home, homemade meals or ready to eat meals present in every supermarket, as this trend is rising due to aspects such as seeking healthy products and the unhealthy idea associated with fast food. The leading companies of the Frozen Processed Food market in Brazil are Bfr Brasil Foods SA (accounted for 58% of the market retail sales in 2010) and Gomes Da Costa Alimentos SA. Despite frozen food market being dominated by the local manufacturers, international players such as Bonduelle do Brasil and McCain do Brasil account for 2% of market retail sales in 2010⁹, among others such as Supernova and Eismann Group from Germany. Therefore, Prego Gourmet with its healthy products and menus can reduce this shifting risk from consumers given its VRIO. Consequently the fast food industry in Brazil faces a moderate threat from substitutes.

6 (Datamonitor 2010a: 14) – “Entry to the Brazilian fast food market does not require large capital outlay (...) is within the means of many individuals in Brazil”.

7 (Datamonitor 2010a: 14) – “(...) market entrants face several other barriers. Retaliation by existing players (...) price war is a possibility (...) moves into a more concentrated segment.”

8 (Datamonitor 2010a: 14) – “(...) revenue growth rates have been respectable rather than dramatic (...) making the market less attractive.”

9 (Euromonitor, 2011a: 2) – “Brf Brasil Foods SA remains the dominant leader in frozen processed food in Brazil, account for 58% of total retail value sales in 2010(...)” / “Frozen processed food in Brazil is dominated by local manufacturers, with international players such as Bonduelle do Brasil and McCain do Brasil accounting for just 2% of total retail value sales in 2010.”

Buyers Bargaining Power – Moderate Low

The worldwide decrease in the disposable income has strengthened the buyer's power, increasing customers' price sensibility¹⁰. In Brazil companies engage in pricing wars to attain more clients, thus practicing very low prices¹¹. Lack of switching costs also empowers the buyers, as within a given price range, the customer can choose from a variety of brands, based on his daily preferences¹² and the fact of fast food not being essential for customers, since it is a matter of convenience and availability. On the other hand, fast food business faces high transaction volumes, which means that, individually, the impact of a sole buyer on revenues is rather small. Therefore, the buyers' bargaining power is moderate low.

Suppliers' Bargaining Power – Medium high

Suppliers measure their power over companies in the industry with the ability to increase or decrease their prices as well as their quality. Thereby, major players can crumble the market's potential profit. In this industry this does not happen as there are not major companies of suppliers and this market is not as concentrated as the market they serve. With products that cannot be made within the company, the companies make partnerships with suppliers reducing costs, to increase their prices' competitiveness. Moreover, Prego Gourmet can try to arrange contracts with supply companies such as FSB Food, Braslo Marfrig, Sadia, covering meat, chicken and bread suppliers, then try to associate the brand with known beverage companies – as leading companies do – since other aspects such as sauce confection would be made within the distribution center in Brazil.

Competitive Rivalry – High

With more than 150 000 outlets present in Brazil¹³ in 2011, there is a fierce competitive rivalry with many strong players that are always advertising themselves to boost and sustain their brand awareness (*Exhibit 11*).

10 <http://g1.globo.com/jornal-da-globo/noticia/2011/04/redes-de-fast-food-abrem-guerra-de-precos-para-conquistar-novos-clientes.html>

11 <http://www.estadao.com.br/noticias/impreso,a-disputa-das-redes-de-fast-food,707710,0.htm>

12 (Datamonitor 2010a: 13) – “(...) the main source of buyer power is the lack of switching costs; (...) consumer's choice (...) is purely a matter of personal taste (...)”

13 (Euromonitor 2012a: 1) – “The number of outlets increases by 2% to reach 153,395 units in 2011”

The market players have some disparities and can be split in two main groups, international large chains (McDonalds) and domestic chains (Koni). Furthermore, regarding size, players also can be segmented by product line such as sushi, pizza or hamburger.

The fast food market in Brazil faces five leading companies – McDonald's, Al Saraiva Empreendimentos, Brazil Fast Food Corp, Doctor's Associated, and Restpar Alimentos – which, despite McDonald's, are master franchisors of many well-known brands, accounting for 53% of total foodservice values in 2011¹⁴ of R\$ 8.2 billion, having their combined share dropped resulting for weak performance from Al Saraiva. With this, the company must analyse this information when choosing its entry mode, despite Franchising is a common method, there are many joint ventures – as they allow for control, investment, shared profits, entrepreneurial initiative, and commonly to meet government requests for local equity participation – forming these market leading-companies. McDonalds accounts for 30% value share being the outright leader, being followed by Al Saraiva Empreendimentos that had to close 29 outlets, having Habib's (Arabic food), Ragazzo (Italian food) and a new brand – BOX30 (resulting of multi-brand) – as part of its brands' family. Brazil Fast Food Corp came after, having in their “brands' family” known brands such as Bob's, KFC, Pizza Hut, In Bocca al Lupo, Yoggi and lastly Doggis brand.

Additionally, Doctor's Associates ranked fourth with Subway and was followed by Restpar Alimentos with their strong Brazilian brand Giraffas having strong partners such as Coca-Cola Brasil, Unilever Food Solutions, providing sauces such as ketchup, mayonnaise, mustard and salad sauces, among others.

The fact of almost inexistent customers' switching costs raises the competition among companies. Investment in brand awareness is quite important as McDonald's spending - McDonalds spent US\$ 650.8M in worldwide advertising in 2009¹⁵. The fierce pricing strategies¹⁶ reduce company's margins while there is a great diversity of products and competitors from the customer to choose.

14 (Euromonitor, 2012b: 1) – “McDonald's, Al Saraiva Empreendimentos, Brazil Fast Food Corp, Doctor's Associated and Restpar Alimentos (...) accounting for (...) 53% of total foodservice values (...)”.

15 (Datamonitor, 2010a: 15) – “Brand power, however forms the greatest competition in the fast food market, for example, McDonald's spent \$650.8 million on advertising (globally) in 2009.

16 <http://oglobo.globo.com/economia/fast-food-na-briga-pelo-consumidor-redes-cortam-precos-dos-cardapios-em-ate-50-2772987>

Concluding, fast food market is expected to keep growing, at a decelerated pace, as companies engage in pricing strategies making customers eat out of home, therefore having high competitive rivalry¹⁷. Prego Gourmet should position its offerings within shopping malls engaging in partnerships with complementary products with high brand awareness such as beverages and deserts companies, in order to attain the attachment of customers with existing brands now associated with Prego Gourmet. Also, some communication techniques such as social networks, billboards and parties/events are good practices to brand the company as well as its pricing promotions, quality of its services and products and the present innovation of the business.

TOWS Analysis

With the foreign market studied, a TOWS analysis will help the company to plan strategies, minimizing risks and threats, to be successful in Brazil. Hence, the group had to beforehand do a SWOT Analysis of the company within the Brazilian Market (*Exhibit 13*).

Table 2 – TOWS and SWOT Matrix

17 Additionally, it can be seen in *Exhibit 12* the domestic and international fast food chains present in Brazil as well as their brand shares and a further analysis of the Brazilian fast food market.

Strategies to use strengths to maximize opportunities (S/O);

Prego Gourmet concept is inserted in **Fast Casual Dining, which was still negligible in Brazil in 2011**¹⁸. With a rising economy (*Exhibit 14*), having **Brazilian consumers having more purchasing power**, a new middle class emerged with appetite for consumption, seeking high-income products. Here, the firm should target these consumers, as Fast Casual Dining may be a response for their needs, with a concept still very unexplored in Brazil ($S_6/O_1 + O_3$).

With better living conditions, the Brazilian consumer has increased their awareness towards healthy living, enjoying the benefits of better dieting. Prego Gourmet must keep on with their quality menus offering healthy option, since it will be demand for the company's products, while Brazilian people demand healthier products since the offered goods are too far standardized¹⁹ (S_2/O_2). Furthermore, major players in Brazil are aware of this trend and are starting to change its products to healthier offerings²⁰.

In Lisbon, Prego Gourmet is able to efficient confection different types of meals in a short period of time. This, along side with standardized operations²¹ among all of its outlets, is build-up for the company, visioning a Franchising option entering Brazil, a very used method in Brazil, according to the Euromonitor International 2012b (S_1/O_4).

While selling a product of the traditional Portuguese cuisine, and using this fact to boost their brand awareness, the company should target Portuguese communities at an early stage, as there is plenty of history between Portugal and Brazil, having in 2011 329.711 Portuguese, an increase of 53.008 comparing to 2010, representing 22,4% of new Portuguese immigrants in Brazil. Moreover, São Paulo will certainly be a good target as consular registrations state that there are 179.578 Portuguese, being 109.752 born in Portugal²² (S_4/O_6).

18 H₃ one of the first movers, Euromonitor states "Fast Casual Dining (...) remained negligible in the brazilian Market (...)"

19 <http://www.ecodesenvolvimento.org/posts/2011/marco/fast-food-saudavel-e-nova-tendencia>

20 <http://www.abrasel.com.br/index.php/actualidade/noticias/843-251011-redes-de-fast-food-investem-em-cardapio-com-opcoes-saudaveis.html>

21 Complementary thesis from Frederico Salema will adress these issues

22 Ministério dos Negócios Externos - Direcção-Geral dos Assuntos Consulares e Comunidades Portuguesas Direcção de Serviços de Emigração

Given its experience in Portugal, Prego Gourmet will create a good supply chain in Brazil, in order to keep on delivering a great product/menu variety with fresh, quality and healthy ingredients (S_2/O_7).

Strategies using strengths to minimize threats (S/T);

Accordingly to the company, Prego Gourmet has the capacity to efficient assemble, at lower margins and in a short period of time, different types of meals. If the company manages to secure the price-quality relation that has in Portugal, after assembling an efficient supply chain in São Paulo, this, combined with their efficiency, the company will certainly reduce the probabilities of having their concept/products copied by a large number of players within the market ($S_2 + S_3/T_2$).

With a domestic partner and investor the company will have borrowing capacity, strengthening the company's position when penetrating the São Paulo market, as the company will have leverage to invest a considerable amount of their spending to increase their brandings. Moreover, with a strong recognition the firm will be more suitable to Sonae Sierra²³ and Multiplan²⁴ groups when choosing which companies to be in their food courts. (S_5/T_3).

The company must search for a Brazilian partner in Brazil due to food exporting to Brazil faces high bureaucratic systems making all the processes sluggish and high import taxes that can go up to 80% of the product's value. Hence the company must build all of its business inside Brazil – through a joint venture or local partner – as to avoid these threats. ($S_5/T_5 + T_6$)

Strategies that minimize weaknesses by using opportunities (W/O);

The rising disposable income in Brazil along side with major sporting events to be held in Brazil will have impacts in many different sectors (***Exhibit 15***), which will invest in infrastructure, having planned to open 124 shopping malls between 2011-2013, being 19 of them only in São Paulo²⁵ representing good opportunities for the company to increase their number of shops to better penetrate the market, as new shopping malls will be created. ($O_1 + O_5/W_3$)

23 Developing and operating shopping malls in São Paulo, Distrito Federal, Amazonas, Minas Gerais, Paraná e Goiás

24 Developing and operating shopping malls in Rio de Janeiro (2), São Paulo (7), Minas Gerais (3), Rio Grande do Sul (1), Paraná (1) and Distrito Federal (1).

25 (Euromonitor, 2012b: 3/4) – “(...) according to ABRASCE, with 19 more planned to open over the period to 2013 in the city./ (...) include the 124 new shopping centers to be opened between 2011 and 2013 (...)”

Accordingly to Euromonitor International Brazilians emotionally consume, meaning they associate history and experience while eating. Therefore, Prego Gourmet must reach out to that emotional string Brazilians have in their eating habits since *prego* snack is part of the Portuguese culture²⁶, with plenty of history, probably attaining potential customers (O_8/W_5).

While the majority of *fast food* operators are expanding their businesses through franchising, this is a good option for Prego Gourmet because it will require some efforts from the firm, since Prego Gourmet needs first to organize its franchising business model, standardizing their many processes, for example investing in a distribution center and their training programs²⁷, which are current weaknesses of the company ($O_4/W_6 + W_2$).

Strategies that minimize weaknesses by avoiding threats (W/T);

As new comers in the industry, Prego Gourmet must invest in Market Research in Brazil, to have a better understanding of the market, as their competition and their possible clients, thus gaining some advantage comparing to the great competitors' number and to move away from the probability of having copycats ($W_1/T_1 + T_2$).

In order to fight against the already settled strong brands in the market, Prego Gourmet must increase their number of shops – gradually – overseas in order to gain brand awareness ($W_3 + W_5/T_3$).

Lastly Prego Gourmet must find a good and trusty local partner, with good knowledge of Brazilian market and juridical/legal aspects, since they must settle all of their business inside Brazil to not face these issues. ($W_4/T_5 + T_6 + T_7$).

²⁶ Please see **Exhibit 16** for detailed information

²⁷ Frederico Salema thesis will adress these issues.

Why São Paulo? – Foreign Market Choice Analysis

Having studied the internal environment and the Brazilian fast food market, it is imperative to justify the country and state selection. This way the company can have insights about the local environment in which will insert its business.

In Latin America, Brazil – with around 200M inhabitants – is consider the 6th largest economy worldwide in terms of US\$ in 2011, after dethroning UK (*Exhibit 17*) that is still struggling to recover from the 2008 global downturn.

According to Euromonitor International²⁸, Brazil despite facing an economic slowdown, the economy was able to create 3 million new jobs in 2011 and another extra million in the beginning of 2012. Unemployment fell from 6.0% to 5.5% in 2012 – reaching a record low. Brazil's economy reached a value of US\$ 2,581,501 million, representing a 3,8% growth in real terms in 2011, as a result of their expansionary fiscal policy and fierce export markets. Furthermore, Sao Paulo is known as the restaurant capital of Brazil famous for its diverse food culture. Sao Paulo's cuisine reflects its immigration history with food origins varying from Portugal to Italy and Middle East. Local Brazilian cuisine is also appealing with young Brazilian chefs innovating traditional meals. The city outperforms many other metropolises in size and in food's variety. In fact, in 2010 there were over 12,500 restaurants in the Sao Paulo, almost the triple than in New York City.

Moreover, with the upcoming sporting events (formerly mentioned), massive infrastructure projects should also help to boost growth in the coming 3-5 years. In fact, IMF predicts growth to be just 3.0% and 4.0% year-on-year in Brazil for 2012 and 2013²⁹.

Prego Gourmet should enter Brazil's market through the *big door*; hence São Paulo would be the appropriate choice, as it is the top city within Brazilian consumer foodservice and the most competitive market.

²⁸ Euromonitor 2012d / Euromonitor 2012e

²⁹ Accordingly to Euromonitor 2012e – “Brazil's GDP Surges to Become the Sixth Largest Economy in the World”

Having almost 20M inhabitants in 2011³⁰, São Paulo is the largest Brazilian city and 5th largest worldwide regarding population and welcomes, each year, around 12M tourists³¹. Scoping to the consumer foodservice, paulistanos have as dine out, one of the most favoured forms of entertainment, preferring fast food to traditional restaurants³², thus having good attractiveness levels when entering this market. Furthermore, although there is a presence of traditional consumers regarding tasting preferences, novelties such as fusion foods³³, are well accepted by restaurant-goers³⁴; hence being receptive to Prego Gourmet's new concept. Since São Paulo is the most important city concerning consumer foodservice, the largest food service operators are present in the city making the market very competitive. In fact, São Paulo has more than 50 shopping malls and plans to open more next year as mentioned formerly³⁵. Nonetheless, since the city keeps on growing as the consumer purchasing power does, São Paulo and its metropolitan area will remain attractive to FDI offering good conditions, and opportunities, for well-prepared companies.

North and Northeast regions despite having lower commercial value have experienced a development boom resulting from private and public investment to support a strong growth in consumer spending and economic activity, thus, creating opportunities when expanding outlets, for the leading operators in the future³⁶.

São Paulo is expected to be the 6th richest city in the world by 2025 stated studies performed by PWC -PricewaterhouseCoopers³⁷, surpassing Paris, Osaka and Ciudad del México, as result of average growth of 4,2% until 2025. Concluding, São Paulo is the most attractive market within Brazil, thus bringing Prego Gourmet many business opportunities as well as difficulties and challenges since São Paulo offers a very competitive fast food market.

30 According to IBGE (Source: Euromonitor, 2012b)

31 (Euromonitor, 2012b: 3) – “São Paulo (...) largest brazilian city (...) 5th largest in the world in terms of population./ Each year the city of São Paulo – the main tourist destination of Brazil - welcomes around 12 million visitors(...).

32 <http://www.abrasel.com.br/index.php/Atualidade/noticias/946-141211-74-dos-brasileiros-preferem-fast-food-a-restaurantes-tradicionais.html>

33 Fusion cuisine combines elements of various culinary traditions while not fitting specially into any. The term generally refers to the innovations in many contemporary restaurants cuisines since the 1970's. (Source *Wiki Answers*)

34 (Euromonitor 2012b: 3) – “Although some consumers can be very traditional in their tastes, novelties, such as fusion foods, are well accepted by restaurant-goers-“

35 For further details check footnote 23

36 (Euromonitor 2012b: 4) – “The north and northeast regions (...) experienced a development boom (...) public and private investment supporting (...) growth in consumer spending (...). /The northeast region will provide good opportunities (...)”

37 http://www.bbc.co.uk/portuguese/noticias/2009/11/091109_ranking_cidades_price_rw.shtml

Entry Mode Selection

After developing their franchising systems within domestic market³⁸ and studying and analysing franchising (**Exhibit 18**) the company should focus on a business format franchising agreement forming a Joint Venture, being more suitable than a local partner³⁹, starting with *direct franchising* during the early establishment phase. The company must account for cultural shocks, because if they do not, they risk competitive responses, which are more tuned to the local culture and market environment, as it happened in Philippines with Jollibee and McDonald's⁴⁰, which even taunted McDonald's with slogans such as "*smells and tastes delicious, not bland*", responding for the preference for the local tasty burgers. Hence, franchisors naturally seek adjustments at the surface level rather than essential such as changes in outlet décor and internal product range, attaining to both standardize and adapt. Furthermore, Prego Gourmet should invest and transfer a comprehensive package to its potential franchisees, including a demanding training program and a continuously involvement with them, as McDonald's did, the biggest player worldwide concerning franchising. Despite assuring quality and the brand Prego Gourmet, the main goal for the company should be to have a great number of stores – company-owned or master franchisees – because a well-known network of franchised stores throughout a country, along side with advertising activities, unavoidably will intensify the prospect of contact not only by inhabitants, but also by interested foreigners.

Overview of Franchising in Brazil

With Prego Gourmet entering Brazil through the creation of master franchise, an analysis of this issue in Brazil will give the company insights when settling up their business overseas.

Franchising is portrayed by an on-going relationship, nowadays with shorter contracts around 5 years, between a *franchisor* - company owning/controlling the rights to grant franchises to potential franchisees – and the *franchisee* – the person or entity to whom the right to conduct a business is granted by the franchisor, which includes not only the product, trademark and service, but the whole

38 Frederico Salema's work Project purpose

39 For detailed information see **Exhibit 19**

40 Business Asia (1990), "Jollibee dominates market by catering to local tastes", 14 May 172

business format, such as marketing strategy and plan, quality control, operation manuals and standards with a continuing two way interaction. According to the ABF (Associação Brasileira de Franchising) the franchising sector had, in 2011, revenues of R\$ 88855 billion, representing a 16,9% growth from 2010⁴¹ (**Exhibit 20**). Thus being, Franchising is the most used entry mode method chosen by international big players. Segmenting the market, the southeast region of Brazil accounts for 70,5% of companies' headquarters that are franchised in Brazil having 57,6% of franchisees. São Paulo has the most competitive market with 51,1% of companies' HQ and 35,6% of franchisees⁴². Furthermore, this sector more than triple its franchising chains in 2001-2011 (**Exhibit 21**) and reached to 93098 franchisees in 2011 (**Exhibit 22**) (Source: ABF).

Accordingly to Forbes⁴³, Brazil's franchise industry is booming. The ABF states that the sector has been growing 10% to 13% per year in the past decade. This year, Brazil's franchising industry is expected to grow profits 15%, while the total number of franchises should rise by a further 10% to 2,031 brands. However, starting a new business in Brazil is everything but easy. According to World Bank *Ease of Doing Business* index ranks Brazil in 126 out of 183 countries, taking up to 120 days to start a business compared to the 6 days in the US.

Sebrae states that the risk of failure in franchising business is 15% compared to the 80% of failure in non-franchising business. Therefore, Brazilians are embracing this model to increase their odds.

Brazil ranks 5th in the world franchising league table, and according to ABF, the four top franchises in Brazil in 2011 were *O Boticário*, *Colchões Ortobom*, *Kumon* and *McDonald's*. Hence, to engage in a sustainable business, Prego Gourmet should focus on selling long-term business format offering a unique product or service, and not just selling franchise licenses, as Subway did entering Brazil. This is imperative, as franchises entering Brazil should enter at a slower pace in order to create relationships at all levels with the community, being they suppliers, franchiser/franchisee, customer interaction or distributors.

41 <http://www.portaldofranchising.com.br/site/content/interna/index.asp?codA=10&codC=1779>

42 <http://www.portaldofranchising.com.br/site/content/interna/index.asp?codA=11&codC=9&origem=sobreosetor>

43 <http://www.forbes.com/sites/ricardogeromel/2012/07/27/franchising-the-best-way-of-investing-in-brazil/>

Franchising Legal Issues in Brazil

In Brazil, the franchising regulator is Associação Brasileira de Franchising – ABF - that requests the franchisors to provide potential franchisees with all the information concerning their business and operations. Thereby, to open a franchise, some legal documents are needed (*Exhibit 23*) such as *Lei Magalhães Teixeira*, *A Circular de Oferta de Franquia* and lastly the *Franchise Agreement*. Then, the Registration of the agreement (which must be translated into Portuguese) with the Brazilian Patent and Trademark Office (“INPI”) and Central Bank is required⁴⁴. Likewise, it is indispensable to record the international franchise agreements at the Trademark Office. This comes with the purpose of make the contract effective against third parties, to certificate the payments’ transfer to the foreign franchisor and to qualify the franchisee for tax deductions.

Hence, to seal the franchise agreement, Prego Gourmet needs to go to the Trademark Office and present the *Franchise Agreement*, *Official Forms*, a *Statement delivery of the FDD* and if preferred, the power of an attorney (ABF). Here, Prego Gourmet should arrange and simultaneously work with two Lawyers’ offices, one from Portugal – I would recommend *PLMJ*⁴⁵, as to better address to the company’s needs and interests and another one from Brazil – *Siqueiro Castro Advogados*⁴⁶, since it has better knowledge about the Brazilian market as well as the legal aspects concerning everything around implementing a business in Brazil and the creation of a master franchising. Furthermore, Brazil has high levels of corruption and lack of transparency and the presence of a Brazilian lawyer office will bring a comprehensive knowledge of this issue in the market in question.

Implementation Plan

This part of the work project will address implementation issues such as expansion for São Paulo, the company’s marketing mix , site location and furthermore an 4M implementation method.

44 <http://www.franchise.org/IndustrySecondary.aspx?id=45346>

45 With 40 years of experience, PLMJ is one of Portugal’s leading law firms and a key reference in the country’s legal sector because of its dynamism, capacity for innovation and quality of service. PLMJ is a full service firm dedicated to specialisation and offering a complete range of legal services.

46 According to “Análise da Advocacia 500”, Siqueiro Castro Advogados ranked first, and it also ranked first as bigger lawyer company in Latin America according to Latin Lawyer english publication .

Expansion of Prego Gourmet to São Paulo

In order to expand its business to Brazil Prego Gourmet have to assign a worker or engage in a joint venture to be Brazil's country manager, having as its functions control and support the master franchisor as well as to find a Brazilian master franchisor.

To find a suitable master franchisor, Prego Gourmet should use the services of a franchising consultant company. In Brazil, a company providing such services is *Bittencourt Consultaria*, a specialized consulting company that has helped more than 1500 companies to grow and develop their business – business' expansion, business's networks and franchising – being a reference in the Brazilian market.

Hence, Prego Gourmet should pay Bittencourt for its services in order to have their business studied and a suitable master franchisor allocated to the business. In case of failure, Prego Gourmet can focus on other companies, such as *Associação Brasileira de Franchising*, a specialized company in franchising that only works with franchising related issues and also each year organizes the ABF Expo and supports other franchising events such as Franchising Fair. This company would be a suitable solution for Prego Gourmet since it could be its master franchisor due to its market knowledge and know-how or to indicate a suitable company to be Prego Gourmet's master franchising.

This master franchisor would be responsible for many operations in Brazil, find site location for the stores through attaining interest from shopping malls, find and help create a good supply chain and it should adapt the concept to Brazilians needs and preferences, thus gaining customer's responsiveness also in Brazil. After being settled and growing in São Paulo, through company-owned stores or not, Prego Gourmet should expand its business throughout Brazil aiming to be present in the principal estates, such as Rio de Janeiro, Brasília, Estado Federal, Bahia and its surroundings, thus being able to spread quickly its operations. Then, with Prego Gourmet sustainable enough in Brazil, it should start focusing its operations to smaller cities in Brazil, as

they do not have the presence of big fast food chains⁴⁷, making room for market penetration. However, to expand throughout Brazil, is imperative to have a Distribution Centre as it will have in Portugal⁴⁸, consequently, another task of great importance for the Brazilian country manager would be to be responsible, before opening its first store, to assemble a good supply chain and the creation of a Distribution Center.

Through a Marketing Mix the company has better insights about its offerings and what must be done to adapt itself to the São Paulo market.

Prego Gourmet's Marketing Mix

➤ **Product** – features, quality, quantity

Prego Gourmet wants its clients to have the same feeling eating a *prego* while being in Lisbon or Australia. Therefore, changes will be made because to possess the capacity to adapt to diverse environments assures success. Hence, Prego Gourmet should act “Glocally” as McDonald’s did with his motto of “*think global, act local*”. Here, the quantity and quality of the ingredients would be the same, that would be assured with several control checkpoints (announced and unannounced) by the company throughout all of its stages, from the suppliers until the meal to be order and then delivered, but the features of Prego Gourmet in Brazil would suffer some modifications to better serve paulistas’ needs. Therefore, the company should seize the fact of Brazilians being large fruit consumers and the weak fruit supply within fast food chains to introduce some *fruity prego* or to bundle fruits in their menus. Brazilians are also known for loving catupiry, therefore the creation of a *prego* with this should be tested.

➤ **Place** – location, number of outlets

Site Location

After analysing São Paulo’s streets (**Exhibit 24**) considering high people flow, and using h₃ as a benchmark, due to its success, as h₃ is preparing to open its 9th outlet, two favourable options appeared, namely *ShoppingVilaOlimpica* and *MorumbiShopping*. These two shopping malls are

47 <http://oglobo.globo.com/economia/cidades-do-interior-ainda-sao-pouco-exploradas-por-redes-de-fast-food-2744884>

48 Frederico Salema work project’s findings

known for having weekly high people flow since they are nearby many offices, and the rents are lower than other upscale shopping malls such as Iguatemi and JK Iguatemi, sited in Av. Faria Lima and Av. Justecine Kubitscheck, respectively. Plus, h₃ entered São Paulo through these two shopping malls, Morumbi firstly. Hence, with Prego Gourmet joining these malls, the fast casual dining concept would increase as well as the Portuguese presence within, bringing to São Paulo more similarities about Portuguese shopping malls, as plenty of them have h₃ and Prego Gourmet side by side. After evaluating Multiplan⁴⁹ to figure if Prego Gourmet would fit in their shopping malls, Prego Gourmet should insert their business in Morumbi and Vila Olímpica due to the previous reasons and the fact of franchising in Brazil currently accounting for more than half of Shopping's billing⁵⁰.

Prego Gourmet after growing within Portugal (company-owned stores or not) will have knowledge enough to settle its business in São Paulo, at an early stage, starting with a *direct franchising*. Then, the company is well prepared to set up a master franchising aiming for expansion throughout Brazil, having its own stores and to sub-franchise others as well. Prego Gourmet should target to have around 30 stores around 2016 (1 in early 2014, and more less 10 per year until 2016).

➤ **Price** – strategy, determinants, levels

For pricing strategies, Prego Gourmet have to act locally, as each country has its financial characteristics. Moreover, Prego Gourmet is able to have a good price range in Portugal, and since it has not entered Brazil yet, nor know any suppliers, the company will certainly charge higher prices than in Portugal to be able to support all the implementation and procurement costs, but not very high, as in Brazil, fast food companies compete with prices to be within the consumers' choices. After benchmark h₃'s pricing strategy, Prego Gourmet should have its prices' range between R\$12 and R\$20, which should account for three pillars, selecting the price objective, determining demand and estimating costs.

49 "With 37 years of experience, Multiplan is one of the largest companies in the shopping center industry in Brazil. It manages and owns one of the best portfolios in the sector, with 14 units in operation in the country's major consumer markets, such as Rio de Janeiro, São Paulo, Minas Gerais, Rio Grande do Sul, Paraná and the Federal District, totaling 1.5 million m² of built area."

50 <http://www.abrasel.com.br/index.php/Atualidade/noticias/932-091211-franquias-ja-respondem-por-mais-da-metade-de-faturamento-dos-shoppings.html>

➤ **Promotion** – advertising, sales promotion, public relations

Prego Gourmet should brand globally and advertise locally, in order to consider the vast range of cultural and other distinctions that might be faced within each Brazil estate. It would be inexperienced to disregard the several local markets and the factors affecting the products' performance in them. Prego Gourmet must invest a lot in advertising as major companies compete through brand recognition (formerly mentioned). If the company could be associated with the upcoming sporting events and with the Portuguese Football Team, this would rapidly create and strengthen its brand awareness, as the company would make World Cup related promotions to attain more clients, since Brazil will stop during the World Cup.

➤ **People** – quantity, quality, training, promotion, lawyer.

Entering a new country, the first issues Prego Gourmet needs to address is regarding labour laws within Brazil to see if these issues fit with Prego Gourmet working method, thus acting “glocal”. In order to leverage the company against the existing competitors within Brazil, the company must invest in its training program, giving full support to all of its stores and continuous follow-ups to have all its stores offering the same conditions, because a worse store can damage the whole company name as people will always associate it with the company and not the store.

➤ **Process** – blueprinting, automation, control procedures

All of Prego Gourmet's processes and automation need to be standardized in order to be able to robustly grown within its domestic market being able to export all of these features and procedures to other countries. With all of its business standardized, the company will be able to better address issues and complications that could appear, and as it was mentioned in product, automation is importance because it is the only way for a customer to have the same experience in his home or travelling.

➤ **Physical** – cleanliness, décor, ambience of the service.

Prego Gourmet should maintain “its looks” in Brazil since in Portugal the company has been able to deliver a good experience to its customers throughout its clean atmosphere, outstanding employees and always being focusing in customer's responsiveness. Entering Brazilian market may subject

Prego Gourmet to some visual changes but never losing its core features that are what will make the company a reference in Portugal.

After having Prego Gourmet carefully positioned in the Brazilian market (*Exhibit 25*) as well as purpose its entry mode, it is imperative to identify, enlighten and schedule the company's objectives and to allocate tasks through an implementation plan, which will have the maximum duration of 2 years, starting in late 2013, in order to assemble its first store in time to be running in the World Cup to be held throughout Brazil starting in June 2014.

The chosen approach to address this subject and the one who better controls the company's performance is the 4M's approach (Men, Money, Minute and Memo) as it stipulates a series of activities with the respective timeline to be held.

MEN

Since Prego Gourmet is going to expand its operations over a franchising agreement with a joint venture to engage in a master franchising, the company does not have to be in charge of hiring and paying, as those are responsibilities for the master franchisor. Moreover, the urge of having a country manager in Brazil, Prego Gourmet must re-allocate one of its headquarters' employees to Brazil.

MONEY

Since that Prego Gourmet will send one of its hq's employees to Brazil, there will be associated costs such as salary increase and occasionally travels to Brazil. The other costs mentioned before will be master franchisor's duty.

Likewise, in order to find a suitable master franchisor, Prego Gourmet will have to incur in expenses as to contract *Bittencourt Consultoria*. There is also the urge to seal business agreements; hence some royalties will have to be paid to both Lawyers' Offices⁵¹. If the company chooses to

⁵¹ Emails were sent to Bittencourt Consultoria and Lawyer's offices asking for its fees but I was not given a answer from any of the companies mentioned.

address this subject alone, it can write its own contracts therefore sending them to a lawyer to be reviewed and later pay the registration fee with INPI.

Concerning revenues, the company will receive royalties as part of the franchising agreement previously stipulated with the master franchisor.

MINUTE

The table below details each activity with its respective timeline. Furthermore, in *Exhibit 26* it can be seen with better detailed the activities' plan for Prego Gourmet for the early stages of settling its operations in Brazil.

Table 3 – Minute – Timeline of each activity

	Activity	Duration	Dependency
1	Allocation of Brazil's Country Manager	1 month	-
2	Hire Bittencourt Consulting Services	1 - 3 months	Act. 1
3	Select suitable master franchisor	3 - 4 months	Act. 1, 2
4	Hire a Lawyer's Company (PLMJ & Siqueiro Castro)	1 - 2 months	Act. 3
5	Contract Formulation (Store, lawyer, suppliers, franchising)	2 - 3 months	Act. 4, 3
6	Contact Multiplan	1 month	Act. 3
7	Arrange Outlet Site (Shopping Mall)	1 - 2 months	Act. 3, 6
8	Stores Design and Construction	3 - 6 months	Act. 7
9	Training programs	2 - 4 months	Act. 8
10	Marketing Program	3 months	Act. 5
11	Evaluate Prego Gourmet's performance	1 month	-
12	Study viability of new stores	2 - 3 months	Act. 11
13	Look for possible franchisees (RJ, Bahia, Recife)	3 - 6 months	Act. 12
14	Start Expansion Process	3 - x months	Act. 13

MEMO

Table 4 - Memo

	Objectives	Measurement	Target	Initiative
Financial	✓ Raise outlets number	✓ Sales Revenues ✓ Sales Volume ✓ Royalties' received ✓ Fee per store	✓ Be above BEP within the 1st year ✓ Increase sales in 50% by the end of 2nd year	✓ Find a key partner to be a master franchisee ✓ Celebration of master franchisor ✓ Bittencourt Consulting Services

Customer	<ul style="list-style-type: none"> ✓ Create Brand Awareness in Sao Paulo 	<ul style="list-style-type: none"> ✓ Market Research ✓ N° of visitors/year 	<ul style="list-style-type: none"> ✓ Increase brand awareness by 50% within 1st year 	<ul style="list-style-type: none"> ✓ Marketing campaigns ✓ Social Networks ✓ World Cup promotions ✓ Survey to potential customers
Internal	<ul style="list-style-type: none"> ✓ Recruitment process ✓ Minimize waste ✓ Time/Cost effectiveness ✓ Extend Partnerships ✓ Translate manuals (En/Br) ✓ Train SP's Team 	<ul style="list-style-type: none"> ✓ Performance Evaluation accordingly to Prego Gourmet's objectives ✓ Number of meals served by hour 	<ul style="list-style-type: none"> ✓ Have an efficient team assembled within 4months 	<ul style="list-style-type: none"> ✓ Translation of manuals ✓ Recruiting programs ✓ Training programs ✓ Take away service ✓ Apps for iOS and android
Learning	<ul style="list-style-type: none"> ✓ Forecast customers' needs and adapts business accordingly 	<ul style="list-style-type: none"> ✓ Customers' satisfaction ✓ Customers' loyalty 	<ul style="list-style-type: none"> ✓ Increase number of orders per day ✓ Increase customer identification, loyalty and satisfaction 	<ul style="list-style-type: none"> ✓ Menus adaptation ✓ Healthier menus ✓ World Cup and Olympic Games menus ✓ Market research

After two years of experience, Prego Gourmet needs to evaluate its operations and performance, and if it is necessary, to make some modifications and adaptations to the original plans, as to have a more effective overall strategy.

Risk Assessment and Contingency Plan

Objectives	Level of Criticity	Impacts
Raise Outlets number	High	Internal/External/Financial
Create Brand Awareness in São Paulo	High	External/Financial/Strategic
Recruitment Process	Medium	Commercial/External
Minimize Waste	Low	Operational/Internal
Time/Cost Effectiveness	Medium	Operational/Internal
Extend Partnerships	High	Strategic/External/Financial
Translate Manuals (Br/En)	Low	Operational/Internal
Train São Paulo's team	Medium	Operational/Strategic/Internal
Worst Case Scenarium	Prob of WCS	Contingency Plan
No profit to invest in new stores	30%	Evaluate business and get salvage value
No acceptance from customers	50%	Deeper market research to better address paulistas
No interest in be associated with Prego Gourmet	20%	Improve working conditions within Prego Gourmet
Waste due to lack of efficiency	10%	Improve confection and production processes
Expensive regular meals served slowly	10%	Improve overall business operations aiming for effeciency
No interest in be associated with Prego Gourmet	50%	Turn the business more attractive for investment opportunities
Uncapability of translate or hiring translation services	5%	Translate the manuals yourself
No skilled employees to pass their knowledge	40%	Allocate the best Portuguese team to São Paulo for 3months

Recommendations

Prior to the former analysis, a set of recommendations to Prego Gourmet is detailed below, in order to advise in the best way the company when entering a fierce foreign market as São Paulo, being

them internal recommendations or specific campaigns and adaptations to better penetrate the market and gain customer responsiveness.

Firstly there is a urge to have a Marketing Manager in Portugal, as there is none currently, and also one for Brazil, which must work in a partnership to have an overall branding campaign aligned with the company's objectives. Moreover, due to the intense brand competition present in Brazil, Prego Gourmet should arrange a Brand Management company to work simultaneously with the Marketing department to reduce the many risks associated when entering a new culture.

The company should do market research before and after entering São Paulo, and keep on doing it during the all project in order to be the first ones to anticipate and satisfy customers' needs.

Due to the strong Portuguese presence in Brazil, Prego Gourmet should brand itself as "*Prego Gourmet Lisboa*" where it opened originally, creating an emotional string with all the Portuguese present in São Paulo, facilitating customer responsiveness.

Concerning partnerships helping boost the company's brand awareness, I would recommend to try to associate the brand with the 2014 FIFA World Cup, having initiatives and promotions during the games, and with the Portuguese national Football team gaining visibility with worldwide exposition. Moreover, the company needs to associate its products with known beverages and dessert brands to erase resistance from experimenting a new and foreign concept.

Studies state that some menu adaptations should be done, once more to better address to customers. Therefore, Prego Gourmet should make some adaptations in its offerings such as introducing fruit option in their menus, as Brazilians are very fond of it and few restaurants offer this option. The creation of some Brazilian *pregos* would bring more customers, as they would first eat what they are comfortable then experimenting the Portuguese recipes. Thus, the creation of *prego Picanha* with rice, black beans and manioc, and *prego Catupiry & Bacon* would be two good reasons to bring customers to the restaurant. Also, to have the option to eat *pregos* with cheese-bread instead of regular bread would also be a good initiative from the company. Finally, to have the option to drink coconut water would really get in with the Brazilian culture. Concluding, Prego Gourmet should export some current initiatives such as their Client Loyalty card – offering a meal or a

branded t-shirt on the 10th meal and the takeaway option, as is always valued by customers worldwide.

Conclusions

Prior to analysing Prego Gourmet business, the Brazilian and scoping to the São Paulo fast food market, the deduction is for Prego Gourmet to enter in São Paulo in the end of 2013, in order to have one business unit fully running in time for the World Cup, to be held in June 2014 throughout Brazil.

The reasons for this are the fact of São Paulo be the most competitive market in Brazil and, nowadays, the fast food market despite growing, is doing it at a slower pace, thus being less attractive. Therefore, to be in business during the World Cup, would help the company to boost its brand awareness and to generate revenues, as this sporting event will shift much of the worldwide tourism to Brazil. Nonetheless, in order to expand internationally, a company must be fully established in their domestic market, another reason for aiming to 2014, giving room to expand its operations nationally.

To internationalize to São Paulo, the company must engage in a Joint Venture with a local partner to create a Master Franchising Agreement, which can provide rapid expansion to the company and brand recognition with the local knowledge from the partner and deliver a reliable brand at lower costs, as these will be the master franchisors' responsibility.

Likewise, I recommend for Prego Gourmet to do a gradual expansion to create and strengthen relationships with Brazilians, not solely aiming to sell franchisee licences. Then, some adaptations in the menus should be made to better address this market.

Concluding, after having its first store running, the company must start vision other estates to expand its operations, as the company will be successful delivering *prego* to Brazil, a culture that would certainly attach to this delicious – with great history – dish.

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